

Message Text

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DRAFTED BY E:RASORENSEN:PB

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S/S-O-DLMACK

S/S-O:SSTEINER

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TO USDEL SECRETARY PRIORITY

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FOR UNDER SECRETARY ROGERS FROM SORENSON

FOLLOWING REPEAT LONDON 19170 ACTION SECSTATE 29 NOV 76

QUOTE

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SUBJECT: SITUATION REPORT, NOVEMBER 29

REF: (A) STATE 267168; (B) LONDON 19090

1. SECRETARY SIMON'S VISIT TO LONDON. THERE IS EXTENSIVE COVERAGE IN THE PRESS OF SECRETARY SIMON'S VISIT TO LONDON. WHILE THE HEADLINES ARE LARGE AND THE ARTICLES LONG, THEY ARE HIGHLY SPECULATIVE AND LACKING IN CONCRETE KNOWLEDGE.

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THE PRESS WAS TOLD THAT SECRETARY SIMON, ACCOMPANIED

BY UNDER SECRETARY YEO AND U.S. IMF DIRECTOR, SAM CROSS, MET INFORMALLY WITH THE CHANCELLOR AND SENIOR H.M. TREASURY OFFICIALS TO DISCUSS A WIDE RANGE OF INTERNATIONAL TOPICS OF MUTUAL INTEREST, AS WELL AS TO BE BRIEFED ON THE CURRENT BRITISH ECONOMIC SITUATION. THE PRESS HOWEVER, NOT BE OUTDONE, SPECULATED ON WHAT HAPPENED. FOR EXAMPLE, FINANCIAL TIMES HEADLINED "HEALEY AND LEVER MET SIMON AS IMF TALKS CONTINUE;" "MR. LEVERFID NOT ATTEND THE SESSION WITH CHANCELLOR HEALEY NOR WAS HE EVEN SEATED AT THE SIMON TABLE DURING THE DINNER GIVEN BY AMBASSADOR ARMSTRONG.

2. CABINET VIEWS. ADDITIONAL PRESS COVERAGE WAS DEVOTED TO REHASHES OF LAST WEEK'S CABINET MEETINGS, GENERALLY STRESSING THAT VERY CLOSE TO A MAJORITY OF MINISTERS, IS OPPOSED TO "DEFLATIONARY" MEASURES--WHICH THE GUARDIAN TAKES TO MEAN "ANY PACKAGE OF EXPENDITURE CUTS AND TAX INCREASES WHICH WOULD HAVE AN IMMEDIATELY DAMAGING EFFECT ON EMPLOYMENT." WHILE HEALEY CONTINUES TO BE DESCRIBED AS HAVING ONLY A FEW OPEN SUPPORTERS, THE PRESS HAS SHIFTED IN SOME CASES FROM DESCRIBING CALLAGHAN AS OPPOSED TO HEALEY, TO NOTING (GUARDIAN) "HE HAS NOT SO FAR REVEALED WHICH SIDE HE BELONGS TO IN THE ARGUMENT", AND CLAIMING (TIMES) THAT "MR. CALLAGHAN HAS WARNED CABINET MINISTERS NOT TO TRY TO DRIVE A WEDGE BETWEEN HIMSELF AND MR. HEALEY." PETER SHORE, ENVIRONMENT SECRETARY, WHOSE OPPOSITION WITHIN THE CABINET TO LARGE EXPENDITURE CUTS HAS WIDELY BEEN REPORTED, WENT PUBLIC LAST NIGHT: ON AN INDEPENDENT TV SHOW HE SAID IT WOULD BE "A GROSS ACT OF FOLLY" TO INCREASE UNEMPLOYMENT BY CUTTING PUBLIC SPENDING BEFORE INDUSTRY HAD SHOWN A DECISIVE REVIVAL. WHILE MEMBERS OF THE IMF TEAM REMAIN IN LONDON, MR. CALLAGHAN WILL BE IN THE HAGUE FOR THE EUROPEAN COUNCIL TODAY AND TOMORROW. HEALEY WILL BE SPEAKING TO THE COMMONS TOMORROW AS PART OF THE DEBATE ON THE QUEEN'S SPEECH, BUT THE CABINET WILL NOT MEET AGAIN UNTIL WEDNESDAY.

3. CBI LEADERS WHO MET WITH HEALEY FRIDAY SAID THAT WHILE THEY WANTED REAL PUBLIC EXPENDITURE CUTS IN THE LIMITED OFFICIAL USE

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1977-78 FISCAL YEAR, THEY OPPOSED "MASSIVE DEFLATIONARY MEASURES", AND THEY ARGUED THAT INDIRECT TAX INCREASES SHOULD NOT BE USED TO REDUCE THE PUBLIC SECTOR BORROWING REQUIREMENT.

4. FOREIGN EXCHANGE AND FINANCE. FRIDAY'S TRADING IN

STERLING SAW MILD IMPROVEMENT OVER THE DAY, CLOSING AT \$1.6485, UP 0.25 CENTS FROM THURSDAY'S CLOSE. THE MARKET TRADED VERY QUIETLY AT FRIDAY'S CLOSING LEVEL THROUGH MONDAY MORNING.

THE MINIMUM LENDING RATE REMAINED UNCHANGED AT FRIDAY'S TREASURY BILL AUCTION. THE AVERAGE RATE OF 14.0342 PER CENT WAS UP 0.03L4 FROM THE PREVIOUS FRIDAY. 500 MILLION POUNDS IN BILLS WERE TENDERED, ATTRACTING BIDS OF 1,160.52 MILLION POUNDS. DAY TO DAY CREDIT IS STILL SCARCE BUT THE SEVERE SCARCITY OF LAST WEEK HAS EASED.

THE GILT MARKET SHOWED WIDESPREAD GAINS OF 1/4 DURING STEADY TRADING ON FRIDAY. THE NEW SHORT TAP, 13 PERCENT 1980, WAS SOLD FOR THE FIRST TIME IN THE SECONDARY MARKET, BUT THERE WERE FEW TRANSACTIONS IN THE 800 MILLION POUND ISSUE. IN MONDAY MORNING TRADING, GILT PRICES EASED SLIGHTLY OVER MOST MATURITIES.

THE MARKET IN EQUITIES WAS SLUGGISH ON FRIDAY. THE FINANCIAL TIMES INDEX OF 30 INDUSTRIALS CLOSED AT 302.5, QUITE CLOSE TO THURSDAY'S CLOSE OF 302.0. THE MARKET WAS GENERALLY LOWER IN EARLY MONDAY TRADING; THE FT INDEX AT 11:00 STOOD AT 299.3. TRADING IS LIGHT AS SOME BUYERS ARE WAITING TO HEAR THE IMF TERMS FOR THE PROSPECTIVE \$3.9 BILLION CREDIT.

ARMSTRONG.
UNQUOTE ROBINSON

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